

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

ORIGINAL

In the Matter of)

Annual Assessment of the Status of)
Competition in the Market for the)
Delivery of Video Programming)

MB Docket No. 06-189

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REPLY COMMENTS OF COX COMMUNICATIONS, INC.

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Cox Communications, Inc. ("Cox"), by its attorneys, submits the following reply comments in response to the above-referenced Notice of Inquiry seeking information, comments and analyses of the myriad factors shaping competition in the video marketplace. Cox presents its unique perspective, as an industry leader in the provision of a bundle of high-quality video, high-speed internet and telephone services, as well as a host of advanced services for consumers (both residential and commercial) that are constantly evolving as a result of its innovation and its deployment of a robust broadband network.

I. Cox Leads the Industry in Providing a High-Quality, High-Value Bundle of Services, Increasing Choices for its Customers

Since 1996 when Congress enacted the Telecommunications Act, Cox has invested \$16 billion in private investment capital to build a state-of-the-art broadband communications network. This infrastructure provides customers not only basic and advanced video offerings, but also high-speed Internet and digital telephone services. The simplicity, convenience and exceptional value proposition provided by Cox's full-service bundle of communications services has proven appeal for our customers. In fact, more than half of Cox customers buy two or more services today. And, nearly one-fourth of Cox's total customer base buys a three-product bundle.

Cox is beginning to further extend the reach of its bundle through a wireless joint venture with Sprint and other cable operators, formed in 2006, to provide wireless mobility for all its services. Given the dramatic evolution of the cable business in recent years, the FCC would be well-served to examine video competition in the context of the three-product bundle, including broadband internet and competitive telephone service. Such a perspective would better reflect the marketplace experiences of today's video customer and recognize the tremendous value this service combination provides to American consumers across the country today.

II. Consumers Have Judged Cox Favorably in the Marketplace

Cox competes aggressively with multiple providers in each of its product categories, distinguishing itself on the following fundamentals: (1) the desirability and quality of the product offering, (2) the value consumers place on these services and (3) the service level consumers receive. Cox has demonstrated its ability to provide best-in-class customer service and value for its video service with the variety of programming it offers, the technologies it employs for new and enhanced viewing options, and the attractive pricing and options available for a wide range of programming packages. Customers increasingly pair these packages with Cox's other broadband service offerings for a total communications service value. Cox's success with delivering consumers an outstanding value proposition has been consistently recognized by third parties. In 2006 alone, Cox earned five J.D. Power and Associates honors, receiving the Highest Honor in the West in the 2006 Residential Cable/Satellite TV Customer Satisfaction Study. Cox also has earned the distinction of being the only company to receive highest honors for all three residential services (video, telephone and high-speed Internet) from J.D. Power and Associates.

Video. Cox has 5.4 million residential video customer relationships across the 18 states in which it operates 22 cable systems. With a highly diverse customer base, Cox's success in

each market depends on its ability to tailor its service offerings to customers' interests at reasonable prices. Cox systems do this very well with programming tiers and options tailored to various segments of their customer bases. For example, 17 Cox systems representing over 5.2 million customers have launched the very popular Paquette Latino service that includes over 40 channels of Spanish language and themed programming in addition to local broadcast channels. Cox offers a Faith and Values tier in four markets -- San Diego; Hampton Roads, Va.; Middle Georgia and Roanoke, Va. -- for approximately 1.1 million customers. This tier typically offers three to eight channels of religious-oriented and family programming. Cox also has launched a robust Family Service tier -- averaging 40 channels -- including G-rated only networks, serving 1.2 million customers in Oklahoma, Northern Virginia and San Diego. And where certain customer segments may not be considered large, but have unique programming needs, Cox is often able to serve those needs through premium offerings, including the Filipino channel, Korean TV and Southeast Asia TV in Northern Virginia. These examples illustrate Cox's ongoing commitment to providing its customers diverse, high-quality video offerings in a competitive video marketplace. They also highlight the fact that the marketplace, rather than an artificial regulatory framework, such as government mandated *a la carte*, is best suited to dictate the appropriate mix of service offerings at affordable prices for consumers.

Digital technology has enabled Cox to further craft multiple programming packages that increase customer choice and enhance value. Cox cable systems typically include a Sports and Information Tier, a Movie Tier, and a Variety Tier in their digital service. Some systems also offer smaller mini-tiers, such as the Digital International tier in Northern Virginia. Cox customers typically can choose one, some or all of these digital tiers, or a level of digital service that includes no tiers, but includes the valuable digital programming guide as well as access to

over 45 channels of commercial free CD quality music, over 1,000 hours of movies and events through On Demand or Pay-Per-View and free High Definition programming.

Cox and other cable operators have also accelerated the rollout of High Definition programming content by cable networks and have played an important role in the introduction of local HD broadcast channels for consumers. Cox carries a wide range of cable network HD programming in all of its markets, as well as the HD and other digital multicast content of local public broadcasting in each of its markets. And in most of its markets where retransmission consent has been granted, Cox is carrying the HD signals (and in many cases other digital multicast content) of the local broadcast network affiliates at no additional charge to customers.

In addition to expanding the vast array of video programming packages available, digital technology also has enabled Cox to provide a growing number of options for customers to personalize their own viewing experience. Cox's OnDemand and DVR services have made time-shifted viewing a reality, a convenience that has been hugely popular with customers. Cox's OnDemand service provides Cox customers over 1,000 hours of a combination of free, pay-per-view and subscription programming, including 100-200 hours of children's programming. In fact, approximately 20% of Cox's free OnDemand content is children's programming. Cox's OnDemand, DVR and High Definition services have proven compelling for customers as they make the transition to digital services. Cox's OnDemand service is available to almost 60% of Cox households. And combined, over 1 million of Cox's digital customers are enjoying either the High Definition or DVR services Cox provides.

Digital cable also has allowed customers to further individualize their viewing experience with interactive television functionalities, including extensive tailored parental control features. And the customer education tools about Cox's parental control features, for both cable and high-

speed internet, are unparalleled. Through its "Take Charge!" campaign with spokesperson and children's advocate, John Walsh, Cox has aired nationwide more than 1.2 million public service announcements, distributed more than 500,000 parent guides in its communities, and 18,000 electronic guides have been downloaded through the Take Charge web site.

With cable market share at around 67%, the ability of Cox and other distributors to move customers to digital platforms is critical as the nation prepares for the upcoming digital transition. Cox has played a large role in spurring this transition with the smart, innovative products described above which customers are fully embracing, propelling Cox's digital-to-basic penetration to more than 50%.

Voice. In 2007, Cox will mark a decade in the telephone business. Cox now provides high quality, reliable telephone service to more than 2 million households and 150,000 businesses across the country. This service, called Cox Digital Telephone, is available in all of the company's systems and employs traditional circuit-switched as well as packet-switched (Voice over Internet Protocol) technology to transport phone calls over a private, managed IP-based data network. Regardless of the technology used, Cox Digital Telephone is a full life-line service and the network architecture does not require an Internet connection. Cox continues to improve its digital telephone service with new features and service enhancements, such as Phone Tools and caller ID to the TV, that make customers' lives easier, more convenient and more enjoyable. Phone Tools, a service that converges telephone and internet technology to provide customers with PC based voicemail management, is currently available in Cox's Roanoke, Va.; Central Florida; Gulf Coast; Macon, Ga; and Greater Louisiana markets.

Customer satisfaction with Cox Digital Telephone is reflected in the numerous awards Cox has received. Cox received the highest honors in JD Power and Associates' 2006

Residential All-Distance Telephony Customer Satisfaction Survey in the Northeast, Southwest and Western Regions. Cox has topped the Western Region polling four years straight – in direct competition with century-old incumbent telco providers Verizon and AT&T. In the Western region, Cox ranked highest in all six categories measured by JD Power, including performance and reliability, customer service, company image, offerings and promotions, billing and cost of service. And *Telephony Magazine*, a trade publication serving the telephone utilities industry, recently hailed Cox for its telephone service, saying Cox is “trouncing the competition” and “building a new breed of telecom player.”

Data. Broadband Internet rounds out Cox’s triple-play bundle of advanced communications services. More than 3.2 million customers subscribe to Cox High Speed Internet, which provides speeds up to 15 Mbps. Among the many features and benefits of Cox High Speed Internet service is the Cox Security Suite, which helps customers protect their personal computers from viruses, spyware, spam, phishing scams and pop-up ads. The Security Suite also includes a wide array of parental control features to help block kids from inappropriate websites and allows parents to keep track of their children’s online activities with daily web history reports. Cox’s PowerBoost™, one of the latest exciting innovations introduced by Cox, gives Cox’s high-speed Internet customers a speed burst above and beyond their normal speed when downloading large files and is available to Preferred and Premiere customers free of charge. Once again, the high quality of Cox’s broadband service has been recognized by third parties. In 2006, Cox was honored by JD Power and Associates with its highest honors in Satisfying Small/Midsize Business Customers in its Business Data Study. And PC Magazine has three times ranked Cox as the number one broadband internet service provider.

III. *Competition is Thriving in Cox Markets*

Where cable succeeds, competitors follow. And competition has mounted on many fronts. DBS providers historically have competed with Cox in residential video. But through partnerships with other competing providers, the two national DBS providers now market a bundle of video, high-speed internet, telephone and even wireless services. There are also several wired competitors that compete directly with Cox in its markets, such as Wide Open West in Cleveland, Ohio; Full Channel in Rhode Island; Brighthouse in Gainesville, Florida; and recently Verizon in Northern Virginia. In the San Diego area alone, there are three wireline competitors: Time Warner, Ultronics and National City. Qwest also continues to compete with its video service in Cox's Phoenix, Arizona, and Omaha, Nebraska, service areas. Verizon is expected to launch video service soon in Cox's Orange County/Palos Verdes, Ca.; Hampton Roads, Va.; and Rhode Island markets. Similarly, AT&T just announced the launch of video service in Cox's Connecticut markets and has secured permission to launch its video service in Cox's Cleveland, Ohio and Tulsa, Oklahoma markets. With their foray into video, the telcos are attempting to replicate the successful full-service communications bundle that Cox provides.

There are simply no Cox markets where customers are beholden to any one provider for any communications service – with all markets providing at least three choices for multi-channel video service alone, and a number providing four video choices or more. Competition, therefore, is flourishing in the marketplace – where it should -- without government intervention.

IV. *Regulatory Parity is Key to Allowing the Marketplace to Dictate Results*

Cox has consistently been guided by the philosophy that the marketplace, rather than government regulation, should be the driving force for competition. Cox has rolled out its three-product bundle of advanced communications services without the special franchising favors

sought by late-to-market competitors such as the mammoth phone companies. With a thoughtful balance of choice and value, Cox is a convincing illustration that innovation can flourish in a competitive marketplace solely in response to consumer demands.

Increasingly, however, the regulatory arena is being skewed by overly simplistic views that selective government-facilitated competition is necessary to lower prices for video service. While Cox agrees that much of the local franchising process is outdated and should be streamlined and modernized, doing so for only one set of well-heeled providers is unfair and bad policy. And it is consumers that will bear the ultimate consequences of government unleashing unbalanced regulations into the competitive video market, stifling certain competitors and therefore denying customers the innovation that an open market fosters.

There is no consumer benefit of this unbalanced approach, as the policies flowing from the flawed assumptions about video pricing miss the single most critical distinction between video services and other communications services – video services are content-based. Every operator (cable, satellite and telco) purchases content from the same programming providers and *all* face the serious pressures of dramatically rising programming costs, which have soared 10% each year for Cox over the past three years. As a result of programming cost pressures, satellite companies have increased their prices every year for the past five years, despite the fact that as national providers they have at least triple the customer base of companies like Cox on which to negotiate volume discounts for programming. Telephone company video pricing will similarly be directly impacted by programming costs. In fact, just one year into its launch of FiOS, Verizon has already increased video prices by three dollars or 7.6%. Until content cost increases abate, it is simply unrealistic to expect video pricing trends to change significantly.

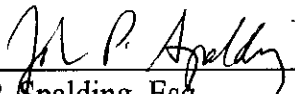
Cox's operational expertise has allowed it to maintain prices that are comparable to Verizon, AT&T and satellite, substantially larger providers. Cox's expertise comes from knowing our markets, and being nimble enough to respond to customers who are focused on lowering their overall telecommunications bill, rather than rate card video prices. In fact, cable's bundle of video, high-speed Internet and voice service costs *23 percent less* than the inflation adjusted price ten years ago, according to data compiled from MSOs and the Bureau of Labor Statistic's Inflation calculator. In order for innovation to continue to flourish and for consumers to realize even greater benefits from the full-service communications bundles offered by multiple providers, a level regulatory playing field must exist for all providers and across all services in the competitive marketplace.

V. Conclusion

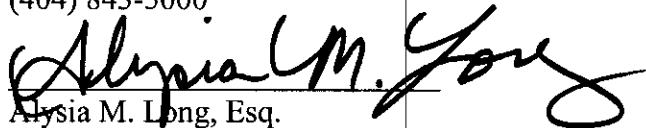
Cox fully embraced Congress' vision of telecommunications competition outlined in the 1996 Telecommunications Act by becoming the first U.S. cable company to deliver digital video, high-speed internet and telephone service via a single network, dramatically improving the value proposition for consumers as a result. It is undeniable that Cox's competitive advantage is its knowledge of its local markets and emphasis on customer service, which has resulted from extensive innovation and operational excellence. Cox's successes have sparked an unprecedented number of competitive responses from many sources, which we welcome and expect to continue unabated. Cox's experience proves that consumers, in a free marketplace with a level regulatory playing field, are best equipped to pick the winners for their entertainment and communications service needs.

Respectfully submitted,

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